

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

VERIZON HAWAII INC.)

DOCKET NO. 02-0380

For Approval to Include Funds in)
Excess of \$500,000 in)
Its Rate Base for the Laupahoehoe)
To Paauilo Interoffice Facility)
Relief Project.)

DECISION AND ORDER NO. 20036

Filed Feb. 25, 2003
At 10:00 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

2003 FEB 25 P 3:25

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ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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To Paauilo Interoffice Facility)	
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_____)	

DECISION AND ORDER

I.

By application filed on October 21, 2002, VERIZON HAWAII INC. (Verizon) requests commission approval to include \$571,700 in its rate base for the installation of fiber optic cabling between Verizon's Laupahoehoe and Paauilo central offices on the Hamakua Coast of the island of Hawaii (proposed project). Verizon's request is made pursuant to paragraph 2.3.d.2 of the commission's General Order No. 8 (G.O. No.8), Standards for Telephone Service in the State of Hawaii, Hawaii Revised Statutes chapter 269, as amended, and Hawaii Administrative Rules (HAR) § 6-80-90.

Verizon served copies of the application on the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs (Consumer Advocate).¹ On December 10, 2002, the

¹On November 6, 2002, the commission approved the stipulation for protective order entered by and between Verizon and the Consumer Advocate.

Consumer Advocate served Verizon with information requests (IRs). Partial responses to the IRs were filed by Verizon on December 30, 2002. Verizon filed the remaining responses to the IRs on January 16, 2003. By Order No. 19969, the commission suspended the triggering of the G.O. No. 8 90-day automatic approval provision to give the Consumer Advocate and the commission additional time to complete their review and investigation of the proposed project.

The Consumer Advocate submitted its statement of position (SOP) on February 4, 2003. In its SOP, the Consumer Advocate states that it does not object to the Commission approving the commitment of funds for the proposed project. However, it objects to approving the inclusion of the proposed project costs in rate base at this time, and recommends instead that this determination be made in the next rate proceeding.

II.

A.

The proposed project will involve the installation of fiber optic cabling between the Laupahoehoe and Paauiilo central offices on the Hamakua Coast of the island of Hawaii. Verizon has completed an incremental upgrading of its interoffice facilities along the Hamakua Coast to fiber optics as its copper T1C facilities, currently providing interoffice trunking between the Paauiilo and Laupahoehoe central offices, have exhausted. The incremental build out has placed fiber optic cabling between the communities of Papaikou to Honomu to Laupahoehoe, and between Paauiilo to Honokaa. The remaining area to be upgraded is the

Paauiilo to Laupahoehoe segment, which is the subject of the instant docket.

The growth of telecommunication traffic in East Hawaii, and the increased demand for bandwidth has been accommodated through Verizon's Hilo to Kamuela fiber network over the Saddle Road route. This would leave Verizon vulnerable, however, to a single fiber failure in the remote rural route. The proposed project was designed to provide alternative routing and restoration capability.

The proposed project was initiated in October 2000, with an estimated cost of \$419,000. A variety of easement delays and increased estimated costs have raised the estimated cost to \$571,700.²

Two alternatives were considered to replace the Laupahoehoe to Paauiilo interoffice routes. The first would establish a new copper T1 system between Laupahoehoe and Paauiilo. The second would establish a new fiber optic cable system between Laupahoehoe and Paauiilo. When comparing the two alternatives, Verizon found that the fiber optic system was the more cost effective and most likely to accommodate Verizon's future telecommunication network needs.

²Verizon represents that the cost increase can be attributed to several factors, namely: (1) an increase in material loading costs; (2) an increase in the Interest During Construction costs; (3) additional pole change outs required along the Paauiilo route; (4) an increase in easement acquisition costs; and (5) additional labor costs.

B.

As noted above, the Consumer Advocate recommends that the commission not approve Verizon's request to include the instant expenditures in rate base at this time. The Consumer Advocate has been unable to assess the reasonableness of the scope of the proposed project and its estimated costs. The Consumer Advocate states that (1) it does not have enough information regarding the size of the proposed fiber cable between the Lauhpaohoe and Paauiilo central offices to confirm that the scope of the proposed project is reasonable and (2) Verizon did not provide documentation for the Consumer Advocate to make a determination regarding the reasonableness of the proposed project's costs. The Consumer Advocate does not recommend that the commission approve the inclusion of costs for the proposed project in Verizon's rate base at this time. However, because the Consumer Advocate does not object to the approval of the construction of the proposed project, it believes that these two issues can be addressed either at Verizon's next rate proceeding, or when Verizon files its final cost report.

III.

Upon careful review of Verizon's application, its responses to the Consumer Advocate's IRs, and the Consumer Advocate's SOP, we find the proposed project to be reasonable and in the public interest. As represented by Verizon, the commitment of \$571,700 for the proposed project will allow Verizon to keep up with the telecommunication requirements of East Hawaii, as the trend for bandwidth continues to grow in that

area. Verizon also represents that the proposed project will provide a physically diverse cable route between Hilo and Kamuela, with outages on the Saddle Road route having little or no impact on telecommunications service because telecommunications traffic would switch automatically to the alternate fiber optic route in the proposed project.

We agree, however, with the Consumer Advocate's concern and its recommendation that Verizon should not be allowed to include costs of the proposed project in its rate base at this time. Thus, we conclude that Verizon's application to expend \$571,700 for the proposed project should be approved. However, the commission will not approve the inclusion of the proposed project costs in Verizon's rate base at this time, but will defer this determination, to be made in Verizon's next rate proceeding.

IV.

THE COMMISSION ORDERS:

1. Verizon's application, filed on October 21, 2002, to expend \$571,700 for the installation of fiber optic cabling between Verizon's Laupahoehoe and Paauilo central offices on the Hamakua coast of the island of Hawaii, is approved.

2. The proposed project's costs shall not be included in Verizon's rate base at this time, but shall be determined at Verizon's next rate proceeding.

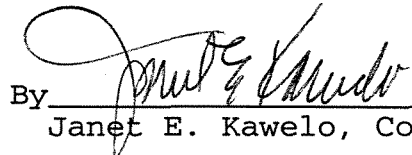
3. The Consumer Advocate reserves the right to make further review of the proposed project's costs at the time of the

filing of Verizon's final cost report, or at its next rate proceeding.

DONE at Honolulu, Hawaii this 25th day of February, 2003.

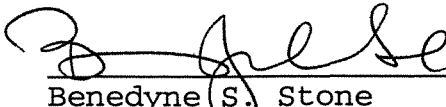
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Wayne H. Kimura, Chairman

By 
Janet E. Kawelo, Commissioner

By (EXCUSED)
Gregg J. Kinkley, Commissioner

APPROVED AS TO FORM:


Benedyne S. Stone
Commission Counsel

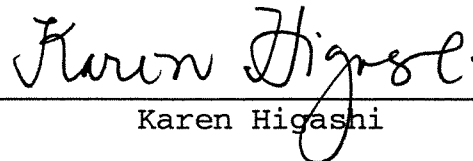
02-0380.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No.20036 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

JOEL K. MATSUNAGA
VICE PRESIDENT-EXTERNAL AFFAIRS
VERIZON HAWAII INC.
P. O. BOX 2200
HONOLULU, HI 96841



Karen Higashi

DATED: February 25, 2003